

**CITY OF NEW LONDON**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS**  
**SUPPLEMENTARY AND OTHER INFORMATION**  
**SCHEDULE OF FINDINGS**

**JUNE 30, 2014**

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## City of New London

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before December 2013)</b>		
Ron Sadler	Mayor	Dec 2015
Kirk Miller	Mayor Pro tem	Dec 2015
Greg Thu	Council Member	Dec 2015
Mark Hempen	Council Member	Dec 2013
Alisha Hudnall	Council Member	Dec 2013
Dan Berner	Council Member	Dec 2013
Scott Housman	Utility Board Chairman	Nov 2015
Gary Blanck	Utility Chairman Pro tem	Nov 2013
Cris Julian	Utility Trustee	Nov 2017
Jerry Wilhelm	Utility Trustee	Nov 2013
Daryl Gipple	Utility Trustee	Nov 2015
Kasi A. Howard	City Clerk/Treasurer	Indefinite
Jeri Lyles	Deputy Clerk	Indefinite
<b>(After December 2013)</b>		
Ron Sadler	Mayor	Dec 2015
Kirk Miller	Mayor Pro tem	Dec 2015
Greg Thu	Council Member	Dec 2015
Greg Malott	Council Member	Dec 2017
Frank Staley	Council Member	Dec 2017
Dan Berner	Council Member	Dec 2017
Jerry Wilhelm	Utility Board Chairman	Nov 2019
Cris Julian	Utility Chairman Pro tem	Nov 2017
Steve Rotter	Utility Trustee	Nov 2015
Phil Schellenberg	Utility Trustee	Nov 2019
Shanon Wellington	Utility Trustee	Nov 2015
Kasi A. Howard	City Clerk/Treasurer	Indefinite
Jeri Lyles	Deputy Clerk	Retired August 2014
Patsy Dillon	Deputy Clerk	Indefinite

**TED M. WIEGAND, CPA**

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Mount Pleasant, Iowa 52641

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Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council and Utility Board:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of New London, Iowa (City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

### Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinions are not modified with respect to this matter.

### Other Matters

#### *Supplementary and Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the year ended June 30, 2013 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the eight years ended June 30, 2012 (which are not presented herein) were audited by other auditors who expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

### Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated March 26, 2015 on my consideration of the City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control over financial reporting and compliance.

TED M. WIEGAND, CPA

March 26, 2015

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of New London (City) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2014 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 1.8%, or approximately \$21,000, from fiscal year 2013 to fiscal year 2014. Property tax increased approximately \$47,000 and other general receipts decreased approximately \$48,000.
- Disbursements of the City's governmental activities decreased 3.4%, or approximately \$40,000, from fiscal year 2013 to fiscal year 2014. Public safety and general government disbursements decreased approximately \$205,000 and \$52,000, respectively. Public works and debt service disbursements increased approximately \$112,000 and \$67,000, respectively.
- The City's total cash basis net position increased 37%, or approximately \$841,000, from June 30, 2013 to June 30, 2014. Of this amount, the cash basis net position of the governmental activities decreased approximately \$11,000 and the cash basis net position of the business type activities increased approximately \$852,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state grants finance most of these activities.
- Business Type Activities include the electrical distribution, sanitary sewer system, waterworks and refuse collection. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Employee Benefits, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Fund. Enterprise Funds are used to report business type activities. The City maintains Enterprise Funds to provide separate information for the Electric, Sewer, Water and Sanitation funds of the City. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$705,715 to \$694,587. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

### Changes in Cash Basis Net Position of Governmental Activities

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Receipts:		
Program receipts:		
Charges for services	\$ 5,109	\$ 21,020
Operating grants, contributions and restricted interest	227,755	232,911
General receipts:		
Property tax	446,001	398,964
Local option sales tax	167,356	152,435
Unrestricted interest on investments	6,503	7,625
Loan proceeds	138,000	150,000
Other general receipts	<u>127,388</u>	<u>175,847</u>
Total receipts	<u>1,118,112</u>	<u>1,138,802</u>
Disbursements:		
Public safety	329,467	534,742
Public works	327,416	214,972
Culture and recreation	186,563	156,039
Community and economic development	10,047	-
General government	122,145	174,526
Debt service	153,602	86,471
Capital projects	-	<u>2,139</u>
Total disbursements	<u>1,129,240</u>	<u>1,168,889</u>
Change in cash basis net position before transfers	(11,128)	(30,087)
Transfers, net	<u>-</u>	<u>37,552</u>
Change in cash basis net position	(11,128)	7,465
Cash basis net position beginning of year	<u>705,715</u>	<u>698,250</u>
Cash basis net position end of year	<u>\$ 694,587</u>	<u>\$ 705,715</u>

The City's total receipts for governmental activities decreased 1.8%, or approximately \$21,000. The total cost of all programs and services decreased approximately \$40,000, or 3.4%, with no new programs added this year. The decrease in disbursements was primarily the result of the purchase of a new fire truck for approximately \$200,000 in fiscal year 2013, the refinancing of the fire truck debt for \$138,000 in fiscal year 2014, and the purchase of a street sweeper for \$40,000 in fiscal year 2014.

The cost of all governmental activities this year was \$1,129,240 compared to \$1,168,889 last year. However, as shown in the Cash Basis Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was \$896,376 because some of the cost was paid by those directly benefited from the programs (\$5,109) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$227,755).



### Changes in Cash Basis Net Position of Business Type Activities

	<u>Year ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 349,532	\$ 248,133
Electric	1,914,620	1,910,010
Sewer	389,734	296,329
Sanitation	155,216	156,146
Capital grants, contributions, and restricted interest:		
Electric	500,000	-
Sewer	860,000	-
General receipts:		
Unrestricted interest on investments	14,406	14,159
Loan proceeds	2,568,787	244,200
Miscellaneous receipts	<u>27,007</u>	<u>172,827</u>
Total receipts	<u>6,779,302</u>	<u>3,041,804</u>
Disbursements:		
Water	614,874	269,401
Electric	1,712,999	1,863,848
Sewer	3,468,520	481,644
Sanitation	<u>130,627</u>	<u>149,161</u>
Total disbursements	<u>5,927,020</u>	<u>2,764,054</u>
Change in cash basis net position before transfers	852,282	277,750
Transfers, net	<u>-</u>	<u>(37,552)</u>
Change in cash basis net position	852,282	240,198
Cash basis net position beginning of year	<u>1,572,445</u>	<u>1,332,247</u>
Cash basis net position end of year	<u>\$ 2,424,727</u>	<u>\$ 1,572,445</u>

Total business type activities receipts for the fiscal year were \$6,779,302 compared to \$3,041,804 last year. This significant increase was due primarily to the receipt of \$2,568,787 in loan proceeds, the receipt of \$1,360,000 in grants, and to increases in Water and Sewer rates charged. The cash balance increased \$852,282 from the prior year because not all of the grant and loan proceeds have been used yet. Total disbursements for the fiscal year were \$5,927,020. Water disbursements were significantly higher in fiscal year 2014 due to water main projects. Sewer disbursements were significantly higher in fiscal year 2014 due to the wastewater treatment plant improvements, engineering services, and lagoon dredging required.

### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of New London completed the year, its governmental funds reported a combined fund balance of \$724,492, a decrease of \$3,834 from last year's total of \$728,326. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$64,061 from the prior year to \$208,541. Approximately \$28,000 of this decrease was due to the purchase of a tornado siren and disbursements related to a new sidewalk at the park and veteran's memorial.

- The Local Option Sales Tax Fund was established during the year, and \$167,356 of local option taxes were received.
- The Capital Projects Fund cash balance decreased \$348,290 to \$318,100. This decrease was due primarily to fiscal year 2014 capital projects, which totaled approximately \$30,000.

### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Electric Fund cash balance increased from \$1,128,591 to \$1,866,606, due primarily to a \$500,000 USDA grant received during the fiscal year which was related to the wind turbine disbursements from 2011, and significant increases in rates in 2012.
- The Enterprise, Sewer Fund cash balance increased from \$242,109 to \$325,507, due primarily to recent significant increases in rates to finance major ongoing sewer repairs.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget two times. The first amendment was approved on May 6, 2014 and resulted in increases in public safety by \$107,268, public works by \$106,841, culture and recreation by \$36,119 and community and economic development by \$3,000 related to a general cost overrun on various expenses. The City had sufficient cash balances to absorb these additional costs. The second amendment was approved on May 29, 2014 to provide for the receipts and expenditures related to refinancing the fire truck loan in the amount of \$138,000.

The City's actual receipts were approximately \$1,322,000 more than budget, as the City received \$500,000 from the USDA and \$860,000 from the State of Iowa (I-JOBS) that was not budgeted.

Total disbursements were \$1,401,366 less than the total amended budget. However, the City exceeded the amounts budgeted in the public works, community and economic development, and debt service functions for the year ended June 30, 2014 due to minor overages and the classification of the fire truck refinancing (\$139,542) in the public safety function rather than debt service. Actual disbursements for the public safety function exceeded the budgeted amount before the budget was amended on May 6 due to expenses incurred for regular operations.

### **DEBT ADMINISTRATION**

At June 30, 2014, the City had \$7,565,548 of bonds and other long-term debt outstanding, compared to \$5,191,493 last year, as shown below.

	June 30,	
Outstanding Debt at Year-End	<u>2014</u>	<u>2013</u>
Revenue bonds and notes	\$ 7,428,692	\$ 5,042,600
Other debt	<u>136,856</u>	<u>148,893</u>
Total	<u>\$ 7,565,548</u>	<u>\$ 5,191,493</u>

Debt increased as a result of issuing \$2,657,381 in sewer revenue bonds to finance major sewer repairs that were needed. In addition, the City issued \$278,311 in water revenue bonds for the purpose of replacing several blocks of water mains.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The

City's outstanding general obligation debt of \$136,856 is significantly below its constitutional debt limit of approximately \$1.8 million. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The City of New London's elected and appointed officials and citizens considered many factors when setting the fiscal year 2015 budget, tax rates and fees charged for various City activities. Those factors include the local economy, the needs of the citizens and repair and maintenance of essential infrastructure.

These factors were taken into account when adopting the budget for fiscal year 2015. Budgeted property tax revenue for fiscal year 2015 increased by 8% from fiscal year 2014 due to increases in assessed valuations and rate increases for Special Revenue levees. The regular general levy remains at the maximum amount of \$8.10 per thousand dollars of valuation. Budgeted charges for service were increased in fiscal year 2015 by 9.6% as a result of increased water and sewer rates. Budgeted other financing sources remain high for fiscal year 2015 due to the continued drawing on a sewer loan totaling \$4,891,000 for improvements to the waste water treatment plant resulting from a DNR compliance schedule, and additionally for anticipated loans for the replacement of a ground level water storage tank.

Budgeted disbursements are expected to total approximately \$1,150,000 less than the fiscal year 2014 actual disbursements total. Budgeted business type activities expenditures saw a decrease in fiscal year 2015 of about \$1,000,000 due to the completion of the improvements at the waste water treatment plant and the replacement of various existing water mains that were made during fiscal year 2014. The City has added no major new programs or initiatives to the fiscal year 2015 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$50,000 by the close of fiscal year 2015.

### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kasi A. Howard, City Clerk, City of New London, 112 West Main Street, New London, Iowa 52645.

**City of New London**  
**Basic Financial Statements**

City of New London  
Cash Basis Statement of Activities and Net Position  
As of and For the Year Ended June 30, 2014

Functions/Programs:	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Governmental activities:							
Public safety	\$ 329,467	5,109	21,396	-	(302,962)	-	(302,962)
Public works	327,416	-	189,989	-	(137,427)	-	(137,427)
Culture and recreation	186,563	-	16,370	-	(170,193)	-	(170,193)
Community and economic developm	10,047	-	-	-	(10,047)	-	(10,047)
General government	122,145	-	-	-	(122,145)	-	(122,145)
Debt service	153,602	-	-	-	(153,602)	-	(153,602)
Total governmental activities	1,129,240	5,109	227,755	-	(896,376)	-	(896,376)
Business type activities:							
Water	614,874	349,532	-	-	-	(265,342)	(265,342)
Electric	1,712,999	1,914,620	-	500,000	-	701,621	701,621
Sewer	3,468,520	389,734	-	860,000	-	(2,218,786)	(2,218,786)
Sanitation	130,627	155,216	-	-	-	24,589	24,589
Total business type activities	5,927,020	2,809,102	-	1,360,000	-	(1,757,918)	(1,757,918)
Total	\$ 7,056,260	2,814,211	227,755	1,360,000	(896,376)	(1,757,918)	(2,654,294)
<b>General Receipts and Transfers:</b>							
Property tax levied for general purposes					446,001	-	446,001
Local option sales tax					167,356	-	167,356
Unrestricted interest on investments					6,503	14,406	20,909
Loan proceeds					138,000	2,568,787	2,706,787
Miscellaneous					127,388	27,007	154,395
Total general receipts and transfers					885,248	2,610,200	3,495,448
Change in cash basis net position					(11,128)	852,282	841,154
Cash basis net position beginning of year					705,715	1,572,445	2,278,160
Cash basis net position end of year					\$ 694,587	2,424,727	3,119,314
<b>Cash Basis Net Position</b>							
Restricted:							
Expendable:							
Streets					\$ (2,830)	-	(2,830)
Debt service					-	553,240	553,240
Unrestricted					697,417	1,871,487	2,568,904
<b>Total cash basis net position</b>					\$ 694,587	2,424,727	3,119,314

See notes to financial statements.

City of New London  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2014

	General	Local Option Sales Tax	Capital Projects	Nonmajor	Total
Receipts:					
Property tax	\$ 314,157	-	-	112,003	426,160
Other taxes	19,841	167,356	-	-	187,197
Licenses and permits	1,807	-	-	-	1,807
Use of money and property	5,298	-	3,925	-	9,223
Intergovernmental	106,970	-	-	189,423	296,393
Charges for service	26,782	-	-	-	26,782
Miscellaneous	39,233	-	-	611	39,844
Total receipts	514,088	167,356	3,925	302,037	987,406
Disbursements:					
Operating:					
Public safety	271,394	-	-	58,073	329,467
Public works	31,494	-	26,478	269,444	327,416
Culture and recreation	146,463	-	-	40,100	186,563
Community and economic development	2,410	-	7,637	-	10,047
General government	110,701	-	-	11,444	122,145
Debt service	139,452	-	-	14,150	153,602
Total disbursements	701,914	-	34,115	393,211	1,129,240
Excess of receipts over disbursements	(187,826)	167,356	(30,190)	(91,174)	(141,834)
Other financing sources (uses):					
Loan proceeds	138,000	-	-	-	138,000
Operating transfers in	-	-	-	14,235	14,235
Operating transfers out	(14,235)	-	-	-	(14,235)
Total other financing sources (uses)	123,765	-	-	14,235	138,000
Change in cash balances	(64,061)	167,356	(30,190)	(76,939)	(3,834)
Cash balance, beginning of year	272,602	-	348,290	107,434	728,326
Cash balance, end of year	\$ 208,541	167,356	318,100	30,495	724,492
<b>Cash Basis Fund Balances</b>					
Restricted for:					
Road use purposes	\$ -	-	-	(2,830)	(2,830)
Debt service	-	-	-	85	85
Other purposes	-	167,356	-	33,240	200,596
Assigned for:					
Library purposes	95,767	-	-	-	95,767
Capital project purposes	-	-	318,100	-	318,100
Unassigned	112,774	-	-	-	112,774
Total cash basis fund balance	\$ 208,541	167,356	318,100	30,495	724,492

See notes to financial statements.

City of New London  
Reconciliation of the Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Governmental Funds  
As of and for the year ended June 30, 2014

<b>Total governmental funds cash balances (page 14)</b>	\$ 724,492
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***Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

(29,905)

<b>Cash basis net position of governmental activities (page 13)</b>	\$ 694,587
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<b>Change in cash balances (page 14)</b>	\$ (3,834)
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***Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

(7,294)

<b>Change in cash basis net position of governmental activities (page 13)</b>	\$ (11,128)
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See notes to financial statements.

City of New London  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2014

	Enterprise Funds				Internal Service
	Electric	Sewer	Nonmajor	Total	Employee Health
Operating receipts:					
Charges for service	\$ 1,914,620	389,734	504,748	2,809,102	16,200
Miscellaneous	21,292	-	16,709	38,001	-
Total operating receipts	1,935,912	389,734	521,457	2,847,103	16,200
Operating disbursements:					
Governmental activities:					
Public safety	-	-	-	-	5,681
Culture and recreation	-	-	-	-	9,501
General government	-	-	-	-	1,730
Business type activities	1,244,112	160,272	451,779	1,856,163	7,383
Total operating disbursements	1,244,112	160,272	451,779	1,856,163	24,295
Excess (deficiency) of operating receipts over (under) operating disbursements	691,800	229,462	69,678	990,940	(8,095)
Non-operating receipts (disbursements):					
Intergovernmental	500,000	860,000	-	1,360,000	-
Interest on investments	11,664	1,858	884	14,406	18
Miscellaneous	3,438	-	740	4,178	-
Revenue bond proceeds	-	2,300,326	268,461	2,568,787	-
Windmill extended warranty	(135,704)	-	-	(135,704)	-
Debt service	(333,183)	(56,538)	(599)	(390,320)	-
Capital projects	-	(3,251,710)	(307,512)	(3,559,222)	-
Net non-operating receipts (disbursements)	46,215	(146,064)	(38,026)	(137,875)	18
Excess of receipts over disbursements	738,015	83,398	31,652	853,065	(8,077)
Cash balances beginning of year	1,128,591	242,109	172,000	1,542,700	7,133
Cash balances end of year	\$ 1,866,606	325,507	203,652	2,395,765	(944)
<b>Cash Basis Fund Balances</b>					
Restricted for debt service	\$ 452,475	-	100,765	553,240	-
Unrestricted	1,414,131	325,507	102,887	1,842,525	(944)
Total cash basis fund balances	\$ 1,866,606	325,507	203,652	2,395,765	(944)

See notes to financial statements.



City of New London  
Reconciliation of the Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
to the Cash Basis Statement of Activities and Net Position -  
Proprietary Funds  
As of and for the year ended June 30, 2014

<b>Total enterprise funds cash balances (page 16)</b>	\$ 2,395,765
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***Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

28,962

<b>Cash basis net position of business type activities (page 13)</b>	\$ 2,424,727
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<b>Change in cash balances (page 16)</b>	\$ 853,065
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***Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position are different because:***

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(783)

<b>Change in cash basis net position of business type activities (page 13)</b>	\$ 852,282
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See notes to financial statements.

City of New London

Notes to Financial Statements

June 30, 2014

**(1) Summary of Significant Accounting Policies**

The City of New London is a political subdivision of the State of Iowa located in Henry County. It was incorporated in 1861 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides electric, water, refuse collection and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of New London has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the GASB criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Des Moines County Regional Solid Waste Commission, Southeastern Iowa Regional Planning Commission, Henry County Emergency Management Commission, and Henry County Joint E911 Service Board.

**B. Basis of Presentation**

**Government-wide Financial Statement** - The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Expendable restricted net position* results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Local Option Sales Tax Fund is used to account for the local option sales tax monies received.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities. Local option sales tax is recorded in this fund.

The City reports the following major proprietary funds:

The Enterprise, Electric Fund accounts for the operation and maintenance of the City owned electric utility system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

An Internal Service Fund is utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there is both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, and debt service functions.

## (2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Level 1, which means that the investments are insured or registered, or the securities are held by the City or its agent in the City's name. All of the City's investments were in certificates of deposit during the fiscal year ended June 30, 2014.

## (3) Bonds and Notes Payable and other Debt

Annual debt service requirements to maturity for revenue bonds and notes and other debt are as follows:

Year Ended	Electric Revenue <u>Capital Loan Note</u>		Sewer Revenue <u>Capital Loan Bond</u>		Two Rivers Bank <u>Fire truck loan</u>	
June 30,	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 180,000	\$ 154,508	\$ 35,000	\$ 13,590	14,016	3,001
2016	185,000	150,818	36,000	12,540	14,342	2,675
2017	185,000	146,470	38,000	11,460	14,675	2,341
2018	190,000	141,660	39,000	10,320	15,017	2,000
2019	200,000	136,055	40,000	9,150	15,366	1,651
2020-2024	1,100,000	570,425	217,000	27,120	63,440	2,950
2025-2029	1,335,000	325,655	48,000	1,440	-	-
2030-2031	<u>625,000</u>	<u>43,318</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$4,000,000</u>	<u>\$1,668,909</u>	<u>\$453,000</u>	<u>\$ 85,620</u>	<u>\$136,856</u>	<u>\$ 14,618</u>

### Electric Revenue and Sewer Revenue Capital Loan Note and Bond

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$4,450,000 of electric revenue notes issued in April 2011. Proceeds from the notes provided financing for the construction of the Wind Turbine. The notes are payable solely from electric customer net receipts and are payable through 2031. Annual principal and interest payments on the notes are expected to require less than 50% of net receipts. The total principal and interest remaining to be paid on the notes is \$5,668,909. For the current year, principal and interest paid and total customer net receipts were \$332,483 and \$691,800, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$727,000 for the sewer revenue bond issued in April 2005. The bond is payable solely from sewer customer net receipts and is payable through 2025. Annual principal and interest payments on the notes are expected to require less than 25% of net receipts. The total principal and interest remaining to be paid on the notes is \$538,620. For the current year, principal and interest paid and total customer net receipts were \$48,610 and \$229,462, respectively.

The resolutions providing for the issuance of the electric revenue note and the sewer revenue bond include the following provisions:

- (a) The bond or note will only be redeemed from the future earnings of the enterprise activity and the bond or note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate electric and sewer sinking accounts within the Enterprise Funds for the purpose of making the bond and note principal and interest payments when due.
- (c) Electric user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements of the next fiscal year.
- (d) Sewer user charges must be established at a level which produces and maintains net revenues at a level not less than 110% of principal and interest requirements of the next fiscal year.

#### Fire truck loan

On May 15, 2014, the City refinanced the fire truck loan with Two Rivers Bank & Trust to obtain a lower rate of interest. The amount refinanced was \$138,010 and the new rate of interest is 2.3% per year.

#### Water Revenue Capital Loan Note

On November 9, 2009, the City entered into an interest free interim loan and disbursement agreement with the Iowa Finance Authority to be used for the purpose of paying the costs of planning and designing improvements to the water system. During the year ended June 30, 2014, the City drew \$42,000 on the note. \$50,000 was rolled into the Water Revenue Bond described in note 4.

#### Water Revenue Bond

On March 28, 2014, the City issued a water revenue bond in the amount of \$370,000 to finance the water main improvement project. The note bears interest at 1.75% per annum and has a servicing fee of 0.25% per annum. Bond principal, interest, and servicing fees are payable semiannually on June 1 and December 1 of each year until the loan is paid in full. The loan is scheduled to be paid in full on June 1, 2034.

The proceeds of the loan were disbursed to the City on a cost reimbursement basis until the project is completed. As of June 30, 2014, the loan balance was \$278,311. For the current year, the City paid \$599 in interest and fees on the water revenue bond.

#### Sewer Revenue Bond

On February 14, 2014, the City issued a sewer revenue bond in the amount of \$4,891,000 to finance wastewater treatment plant improvements. The note bears interest at 1.75% per annum and has a servicing fee of 0.25% per annum. Bond principal, interest, and servicing fees are payable semiannually on June 1 and December 1 of each year until the loan is paid in full. The loan is scheduled to be paid in full on June 1, 2034.

The proceeds of the loan were disbursed to the City on a cost reimbursement basis until the project is completed. As of June 30, 2014, the loan balance was \$2,647,381. For the current year, the City paid \$6,711 in interest and fees on the sewer revenue bond.

**(4) Self-Insured Health Benefits**

The City has an agreement to provide certain health benefits to its employees. The City pays 100% of the premium for health insurance, 80% of the deductible, and 100% of the out of pocket maximum after the deductible has been met. The total maximum reimbursement liability of the City is \$151,200. The City's actual cost related to this reimbursement for the year ended June 30, 2014 was \$24,294.

**(5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$65,190, \$63,275, and \$58,838, respectively, equal to the required contributions for each year.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time payable to employees at June 30, 2014 is as follows:

Type of Benefit	Amount
Vacation	\$ 18,000
Comp time	<u>2,000</u>
Total	<u>\$ 20,000</u>

This liability has been computed based on rates of pay in effect at June 30, 2014.

**(7) Related Party Transactions**

The City had business transactions with City officials or employees totaling \$210 during the year ended June 30, 2014.

**(8) Major Supplier**

The City purchases electric power through the Resale Power Group of Iowa. The total amount purchased was \$579,362 which represents 100% of the total kilowatt hours purchased.

**(9) Franchise Fees**

The City receives franchise fees from Mediacom Communications Corporation at 5% of their gross subscriber revenue. The agreement will expire in February of 2018.

**(10) Other Postemployment Benefits (OPEB)**

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 15 active employees and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$337.87 for single coverage and \$844.70 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2014, the City contributed \$118,901 and plan members eligible for benefits did not contribute to the plan.

**(11) Unconditional Guarantee**

On April 4, 2008, the City of New London, upon resolution of the City Council, agreed to guarantee the performance by the New London Community and School District Foundation (Foundation) of all terms and conditions of the agreement between the Foundation and the United States Department of Agriculture (USDA). The loan was to finance the construction of a child care facility. The New London Community School District is the fee title holder of record, but subject to a leasehold interest granted to the Foundation.

The City of New London, upon notification by the USDA of any default of non-performance of said agreement by the Foundation, shall make payments to cure said default out of any funds of the City of New London, Iowa, including out of its General Operating Fund or its Debt Service Fund established pursuant to Iowa Code 384.4. During the year ended June 30, 2014, the City of New London made one payment of \$4,437 on behalf of the Foundation.

This Unconditional Guarantee shall be binding on all successive city councils as it is the intent of the City of New London that this Unconditional Guarantee shall exist for as long as the indebtedness to the USDA is outstanding. The City waives all defenses to this Unconditional Guarantee, and pledges its full faith and credit to the repayment and guarantee of the loan. As of June 30, 2014, the outstanding loan balance was 921,803.



**(12) Lease Commitment**

On April 29, 2010, the City entered into a 25 year real estate lease for the purpose of erecting, maintaining and operating a wind turbine for the purpose of generating electricity. The lease was amended on March 21, 2012 with the following terms. The lease is renewable on a year-to-year basis at the end of the 25 year term. The City agreed to pay the real estate taxes and special assessments related to the parcel of land. The annual payment is subject to increases every 5 years based upon the most recent U.S. Bureau of Labor Midwest Region Consumer Price Index. Total rent expense for the year ended June 30, 2014 was \$6,000. The future minimum lease payments under this agreement are as follows:

Year Ending June 30,	
2015	\$ 6,000
2016	6,000
2017	6,000
2018	6,000
2019	6,000
Thereafter	<u>93,000</u>
Total	\$ <u>123,000</u>

**(13) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

Transfer to:

Debt service fund	\$ 14,235
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Transfer from:

General fund	\$ 14,235
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Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(14) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(15) Deficit Balances**

The Employee Health Fund had a deficit balance of \$944 at June 30, 2014. The deficit balance was a result of an early withdrawal from the Fund before the needed transfer in was made. The deficit has since been eliminated.

The Road Use Tax Fund had a deficit balance of \$2,830 at June 30, 2014. The deficit balance was a result of a data entry error. The deficit was eliminated on October 21, 2014.

**(16) Subsequent Events**

In September 2013, the City approved a bid of \$4,518,859 for wastewater treatment plant improvements. Seven pay estimates totaling \$1,471,593 were paid from July 2014 through February 2015.

In September 2013, the Municipal Utility Trustees approved a bid of \$222,752 for the water main improvement project. Five pay estimates totaling \$166,999 were paid from July 2014 through December 2014.

### **Other Information**

City of New London

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances -  
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
Other Information  
Year ended June 30, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 426,160	-	-
Other city tax	187,197	-	-
Licenses and permits	1,807	-	-
Use of money and property	9,223	14,424	18
Intergovernmental	296,393	1,360,000	-
Charges for service	26,782	2,825,302	16,200
Miscellaneous	39,844	42,179	-
Total receipts	987,406	4,241,905	16,218
Disbursements:			
Public safety	329,467	5,681	5,681
Public works	327,416	-	-
Culture and recreation	186,563	9,501	9,501
Community and economic development	10,047	-	-
General government	122,145	1,730	1,730
Debt service	153,602	-	-
Capital projects	-	-	-
Business type activities	-	5,948,792	7,383
Total disbursements	1,129,240	5,965,704	24,295
Excess (deficiency) of receipts over (under) disbursements	(141,834)	(1,723,799)	(8,077)
Other financing sources, net	138,000	2,568,787	-
Net changes in cash balances	(3,834)	844,988	(8,077)
Cash balances beginning of year	728,326	1,549,833	7,133
Cash balances end of year	\$ 724,492	2,394,821	(944)

See accompanying independent auditor's report.

Net Total	Budgeted Amounts		Final to Net Total Variance
	Original	Final	
426,160	420,614	421,107	5,053
187,197	171,733	177,877	9,320
1,807	2,500	2,400	(593)
23,629	82,010	34,095	(10,466)
1,656,393	273,349	287,563	1,368,830
2,835,884	2,909,120	2,844,120	(8,236)
82,023	-	122,200	(40,177)
5,213,093	3,859,326	3,889,362	1,323,731
329,467	270,241	515,509	186,042
327,416	220,235	327,076	(340)
186,563	162,925	199,044	12,481
10,047	-	3,000	(7,047)
122,145	180,082	150,724	28,579
153,602	19,844	19,844	(133,758)
-	135,204	135,204	135,204
5,941,409	7,121,614	7,121,614	1,180,205
7,070,649	8,110,145	8,472,015	1,401,366
(1,857,556)	(4,250,819)	(4,582,653)	(77,635)
2,706,787	4,535,000	4,662,844	(1,956,057)
849,231	284,181	80,191	(2,033,692)
2,271,026	2,435,128	2,435,128	3,443,168
3,120,257	2,719,309	2,515,319	1,409,476

City of New London

Notes to Other Information – Budgetary Reporting

June 30, 2014

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$361,870. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the public safety, public works, community and economic development, and debt service functions before the budget was amended.

## **Supplementary Information**

City of New London  
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances  
Nonmajor Governmental Funds  
As of and for the year ended June 30, 2014

	Special Revenue			
	Road Use Tax	Employee Benefits	Debt Service	Total
Receipts:				
Property tax	\$ -	112,003	-	112,003
Intergovernmental	189,423	-	-	189,423
Miscellaneous	566	45	-	611
Total receipts	189,989	112,048	-	302,037
Disbursements:				
Operating:				
Public safety	-	58,073	-	58,073
Public works	245,987	23,457	-	269,444
Culture and recreation	-	40,100	-	40,100
General government	-	11,444	-	11,444
Debt service	-	-	14,150	14,150
Total disbursements	245,987	133,074	14,150	393,211
Excess (deficiency) of receipts over (under) disbursements	(55,998)	(21,026)	(14,150)	(91,174)
Other financing sources:				
Operating transfers in	-	-	14,235	14,235
Change in cash balances	(55,998)	(21,026)	85	(76,939)
Cash balances beginning of year	53,168	54,266	-	107,434
Cash balances end of year	\$ (2,830)	33,240	85	30,495
<b>Cash Basis Fund Balances</b>				
Restricted for road use purpose	\$ (2,830)	-	-	(2,830)
Restricted for debt service	-	-	85	85
Restricted for other purposes	-	33,240	-	33,240
Total cash basis fund balances	\$ (2,830)	33,240	85	30,495

See accompanying independent auditor's report.



City of New London  
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances  
Nonmajor Proprietary Funds  
As of and for the Year Ended June 30, 2014

	Enterprise Funds			Total
	Water	Sanitation	Utility Deposits	
Operating receipts:				
Charges for service	\$ 349,532	155,216	-	504,748
Miscellaneous	-	-	16,709	16,709
Total operating receipts	349,532	155,216	16,709	521,457
Operating disbursements:				
Business type activities	306,763	130,627	14,389	451,779
Total operating disbursements	306,763	130,627	14,389	451,779
Excess (deficiency) of operating receipts over (under) operating disbursements	42,769	24,589	2,320	69,678
Non-operating receipts (disbursements):				
Interest on investments	423	461	-	884
Miscellaneous	740	-	-	740
Bond and note proceeds	268,461	-	-	268,461
Debt service	(599)			(599)
Capital projects	(307,512)		-	(307,512)
Net non-operating receipts (disbursements)	(38,487)	461	-	(38,026)
Excess of receipts over disbursements	4,282	25,050	2,320	31,652
Transfers out	-	-	-	-
Change in cash balances	4,282	25,050	2,320	31,652
Cash balances beginning of year	96,483	46,825	28,692	172,000
Cash balances end of year	\$ 100,765	71,875	31,012	203,652
<b>Cash Basis Fund Balances</b>				
Restricted for debt service	\$ 100,765	-	-	100,765
Unrestricted	-	71,875	31,012	102,887
Total cash basis fund balances	\$ 100,765	71,875	31,012	203,652

See accompanying independent auditor's report.

City of New London  
Schedule of Indebtedness  
Year Ended June 30, 2014

**Schedule 3**

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
Revenue bonds/notes:								
Sewer revenue bond	2/14/14	1.75%	\$2,647,381	\$ -	\$2,647,381	\$ -	2,647,381	\$ 6,711
Water revenue bond	3/28/14	1.75%	278,311	-	278,311	-	278,311	599
Sewer revenue capital loan bond	4/7/05	3.00%	727,000	487,000	-	34,000	453,000	14,610
Water revenue capital loan note	11/9/09	0.00%	100,000	58,000	42,000	50,000	50,000	-
Sewer revenue capital loan note	11/10/09	0.00%	100,000	100,000	-	100,000	-	-
Electric revenue capital loan note	4/28/11	1.10-4.60%	4,450,000	4,175,000	-	175,000	4,000,000	157,483
Sewer revenue capital loan anticipation project note	9/21/12	0.00%	222,600	222,600	22,400	245,000	-	-
Total				<u>5,042,600</u>	<u>2,990,092</u>	<u>604,000</u>	<u>7,428,692</u>	<u>179,403</u>
Other debt:								
Danville State Bank-fire truck	5/7/13	2.50%	150,000	148,893	-	148,893	-	3,290
Danville State Bank-fire truck	5/15/14	2.30%	138,010	-	138,010	1,154	136,856	265
Total				<u>148,893</u>	<u>138,010</u>	<u>150,047</u>	<u>136,856</u>	<u>3,555</u>
Total all debt				<u>\$ 5,191,493</u>	<u>\$ 3,128,102</u>	<u>\$ 754,047</u>	<u>\$ 7,565,548</u>	<u>\$ 182,958</u>

See accompanying independent auditor's report.

City of New London  
Bond and Note Maturities  
June 30, 2014

**Schedule 4**

Year Ending June 30,	Electric Revenue Note		Sewer Revenue Bond		Water Revenue Note		Total
	Issued April 28, 2011		Issued April 7, 2005		Issued November 9, 2009		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2015	2.05%	\$ 180,000	3.00%	\$ 35,000	0.00%	\$ 50,000	265,000
2016	2.35%	185,000	3.00%	36,000	-	-	221,000
2017	2.60%	185,000	3.00%	38,000	-	-	223,000
2018	2.95%	190,000	3.00%	39,000	-	-	229,000
2019	3.25%	200,000	3.00%	40,000	-	-	240,000
2020	3.40%	205,000	3.00%	41,000	-	-	246,000
2021	3.65%	210,000	3.00%	42,000	-	-	252,000
2022	3.90%	220,000	3.00%	43,000	-	-	263,000
2023	4.05%	230,000	3.00%	45,000	-	-	275,000
2024	4.15%	235,000	3.00%	46,000	-	-	281,000
2025	4.25%	245,000	3.00%	48,000	-	-	293,000
2026	4.35%	255,000		-	-	-	255,000
2027	4.40%	265,000		-	-	-	265,000
2028	4.45%	280,000		-	-	-	280,000
2029	4.50%	290,000		-	-	-	290,000
2030	4.55%	305,000		-	-	-	305,000
2031	4.60%	320,000		-	-	-	320,000
		\$4,000,000		\$453,000		\$ 50,000	\$4,503,000

See accompanying independent auditor's report.

City of New London  
Schedule of Receipts By Source and Disbursements by Function -  
All Governmental Funds

For the Last Ten Years

	2014	2013	2012	2011
Receipts:				
Property tax	\$ 426,160	398,964	416,154	394,362
Tax increment financing collections	-	-	-	-
Other city taxes	187,197	152,435	155,866	156,254
Licenses and permits	1,807	375	875	595
Use of money and property	9,223	81,176	75,107	73,605
Intergovernmental	296,393	230,982	225,214	244,286
Charges for services	26,782	22,553	26,162	28,799
Miscellaneous	39,844	92,795	61,034	63,884
Total	<u>\$ 987,406</u>	<u>979,280</u>	<u>960,412</u>	<u>961,785</u>
Disbursements:				
Operating:				
Public safety	\$ 329,467	271,290	306,548	299,799
Public works	327,416	214,972	191,681	174,753
Culture and recreation	186,563	156,039	158,927	144,401
Community and economic development	10,047	-	-	-
General government	122,145	174,526	164,832	158,555
Debt service	153,602	86,471	114,802	7,776
Capital projects	-	2,139	41,351	260,827
Total	<u>\$ 1,129,240</u>	<u>905,437</u>	<u>978,141</u>	<u>1,046,111</u>

\* Totals do not include all bank activity for the library

See accompanying independent auditor's report.

**Schedule 5**

2010	2009*	2008*	2007*	2006*	2005*
375,342	362,711	355,068	346,641	336,364	338,933
31,920	31,500	30,071	29,378	31,645	30,930
140,104	163,702	166,066	146,881	150,312	145,255
1,110	505	865	880	1,480	2,232
78,524	83,865	97,782	83,138	69,169	64,074
239,987	480,174	651,234	300,204	208,805	205,790
25,028	11,909	29,041	26,892	28,185	28,418
67,308	21,819	33,053	18,775	22,943	36,157
959,323	1,156,185	1,363,180	952,789	848,903	851,789
284,877	275,522	376,362	296,617	256,482	229,864
222,489	184,477	229,548	172,628	208,992	176,035
136,748	105,726	118,635	114,108	115,307	105,579
27,285	43,493	-	-	-	-
157,057	154,095	139,578	122,309	117,137	114,271
45,903	31,672	30,725	26,440	27,645	64,666
106,326	422,931	586,374	134,885	43,767	81,130
980,685	1,217,916	1,481,222	866,987	769,330	771,545

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Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of New London, Iowa, as of and for the year ended June 30, 2014, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated March 26, 2015. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of New London's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of New London's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of New London's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of New London's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in the accompanying Schedule of Findings as items A, B and E to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying Schedule of Findings as items C, D and F to be significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of New London's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

### City of New London's Responses to Findings

The City of New London's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of New London's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

### Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of New London during the course of my audit. Should you have any questions concerning any of the above matters, I would be pleased to discuss them with you at your convenience.

TED M. WIEGAND, CPA

March 26, 2015

City of New London  
Schedule of Findings  
Year ended June 30, 2014

**Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- A. Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. There is a lack of adequate segregation of duties in the following areas for the City: Cash, Investments, Capital Assets, Long-Term Debt, Receipts, Disbursements, Payroll, and Financial Reporting.

Recommendation – I realize segregation of duties is difficult with a limited number of office employees. The City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. I specifically recommend that the City provide for the review of bank reconciliations by an official other than the Clerk.

Response – The City will continue to review operating procedures and segregate employee duties to the extent financially feasible to maximize internal control.

Conclusion – Response accepted.

- B. Financial Reporting – Management is responsible for the preparation and fair presentation of the financial statements and accompanying notes to the financial statements. The City does not employ an accounting staff with the technical knowledge and expertise to prepare and present the financial statements and related footnotes in conformity with all applicable accounting standards for the cash basis of receipts and disbursements.

Recommendation – I realize that obtaining the expertise necessary to prepare the financial statements, including all necessary disclosures, may be considered cost-prohibitive and inefficient, and that it is uncommon for a small entity to have such personnel. The City should ensure that management personnel who are responsible for reviewing and approving the draft financial statements and notes to the financial statements have sufficient knowledge of the City's financial position, transactions, and internal control.

Response – The City will continue to review and monitor procedures currently in place and evaluate the risks to be accepted in preparation of the financial statements.

Conclusion – Response accepted.



City of New London  
Schedule of Findings  
Year ended June 30, 2014

- C. Disaster Recovery Plan – The City does not have a written disaster recovery plan for information systems.

Recommendation – The City should develop a written disaster recovery plan that includes the following:

- Identification of critical applications
- Identification of staff responsibilities
- Identification of steps for recovery of the system
- Identification of computer equipment needed for temporary processing
- Requirement a copy of the disaster recovery plan be kept off site
- Requirement to keep system backups current and off site
- Inventory of all hardware and components
- Inventory of all software applications (e.g. operating system and software applications, release versions and vendor names)
- Requirement copies of all user documentation and policy and procedures manuals be located off site
- Requirement extra stocks of checks be located off site
- A determination of whether the disaster recovery plan is adequately tested

Response – The City will develop a disaster recovery plan.

Conclusion – Response accepted.

- D. Annual Financial Report – Certain misstatements on the fiscal year 2014 Annual Financial Report submission were noted:

- 1) Proprietary Funds - two grants, one for \$860,000 and one for \$500,000, were reported as charges for service revenue instead of intergovernmental revenue.
- 2) Governmental Funds – \$139,542 of expenditures related to refinancing the fire truck loan was reported in the public safety function instead of the debt service function.
- 3) Governmental Funds - \$26,708 of library gifts and grants were reported as charges for service revenues instead of miscellaneous.

Recommendation – The City should implement procedures to ensure any future grants to the Proprietary Funds are reported as intergovernmental revenue, expenditures for the payment of debt are reported in the debt service function, and gifts and grants to the library are reported as miscellaneous revenues.

Response – The City will ensure any future grants to the Proprietary Funds are reported as intergovernmental revenue, expenditure for the payment of debt are reported in the debt service function, and gifts and grants to the library are reported as miscellaneous revenues.

Conclusion – Response accepted.

City of New London  
Schedule of Findings  
Year ended June 30, 2014

- E. Reconciliation of Utility Billings and Collections – Utility billings and collections were not reconciled throughout the year. Also, utility collections were not reconciled to deposits. A reconciliation is designed to ensure the proper recording of utility receipts and the propriety of any adjustments and write-offs.

Recommendation – Procedures should be established to reconcile utility billings and collections for each billing period and to reconcile collections to deposits. The City Council or a Council-designated independent person should review the reconciliations. The review of the reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

Response – The City will consider establishing a system to complete a general reconciliation of utility billings, collections and collections to deposits. Accurate reconciliation of utility billings, collections and collections to deposits will require a substantial amount of employee time to complete. An independent person will review any reconciliations.

Conclusion – Response accepted.

- F. Petty Cash Fund – During the audit, I counted the City's petty cash funds and noted the City petty cash was over by \$10 and the Utility petty cash was under by \$71. The petty cash funds had not been reconciled for about seven months. I also noted that there was no supporting documentation for the Christmas wreath that was purchased in November 2014 for \$83.

Recommendation – Procedures should be established to reconcile and replenish the petty cash funds on a more regular basis – no less than quarterly. Supporting documentation should be obtained and retained for all petty cash disbursements.

Response – The City will reconcile and replenish the petty cash funds quarterly and maintain supporting documentation for petty cash disbursements.

Conclusion – Response accepted.

City of New London  
Schedule of Findings  
Year ended June 30, 2014

**Other Findings Related to Required Statutory Reporting:**

1. Certified Budget – Disbursements during the year ended June 30, 2014 exceeded the amounts budgeted in the public safety, public works, community and economic development, and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should be amended before disbursements exceed the budget in accordance with Chapter 384.18 of the Code of Iowa.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

2. Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
3. Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
4. Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Donald Warth, Public Works Employee	Mowing	\$ 210

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transactions with the Public Works Employee do not appear to represent conflicts of interest since total transactions with the individual were less than \$1,500 during the fiscal year.

5. Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
6. City Council Minutes – No transactions were found that I believe should have been approved in the City Council minutes but were not.

Although minutes of City Council proceedings were published, they did not include total expenditures by fund as required by Chapter 372.13(6) of the Code of Iowa until April of 2014.

Recommendation – The City should include total expenditures from each City fund in minutes publications as required by Chapter 372.13(6) of the Code of Iowa.

Response – We will continue to publish total expenditures by fund in the minutes as required. As you have noted, we have published total expenditures by fund since April 2014 and will continue to do so.

Conclusion – Response accepted.

City of New London  
Schedule of Findings  
Year ended June 30, 2014

7. Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
8. Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.
9. Debt Service Fund – Chapter 384.4 of the Code of Iowa states, in part, that a city shall establish a debt service fund to pay judgments against the city, interest as it becomes due and the amount necessary to pay the principal at maturity of all general obligation bonds issued by the city, payments required to be made from the debt service fund under a lease or lease-purchase agreement, or payments required to be made from the debt service fund under a loan agreement.

A total of \$14,150 in debt payments were charged to the Debt Service fund that did not meet the criteria of Chapter 384.4 of the Code of Iowa. The City had no judgments or general obligation bonds to pay during the fiscal year, so the Debt Service fund was not needed.

Recommendation – The City should only use the Debt Service fund to pay judgments and general obligation bond principal and interest as prescribed by the Code of Iowa.

Response – The City will only use the Debt Service fund to pay judgments and general obligation bond principal and interest payments.

Conclusion – Response accepted.

10. Financial Condition – The Employee Health Fund had a deficit balance of \$944 and the Road Use Tax Fund had a deficit balance of \$2,830 at June 30, 2014.

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – The deficit balance for the Employee Health Fund was a result of an early withdrawal from the Fund before the needed transfer was made. The deficit has since been eliminated. The deficit balance for the Road Use Tax Fund was a result of a data entry error, and this deficit was remedied on October 21, 2014.

Conclusion – Response accepted.